



Personnel and Administrative Policy and Procedure

SUBJECT: TAXABLE FRINGE BENEFITS	EFFECTIVE DATE: NOVEMBER 15, 2006 REVIEWED: REVISED: December 2012
CATEGORY: 400 POLICY NUMBER: 400.4	CROSS REFERENCE:

Purpose: To provide guidelines for how taxable fringe benefits, as defined by the Internal Revenue Service (IRS), will be handled.

Definitions

Taxable Fringe Benefits: These are benefits provided by the City which are subject to taxation under the IRS regulations. Fringe benefits are a form of pay for the performance of services (includes property, services, cash or cash equivalent).

Scope: Applies to all taxable fringe benefits of employees and independent contractors.

Policy: It is the policy of the City to comply with Internal Revenue Service regulations with regards to the taxation of fringe benefits. The final determination on whether something qualifies as a taxable fringe benefit lies with the IRS. If they find something is a taxable fringe benefit, the employee may be liable for taxes on the benefit.

Guidelines for Use

The following are guidelines to exempt a variety of fringe benefits that the IRS may otherwise define as taxable.

- Clothing purchased or rented for employees must be clearly marked with “City of Milwaukie” either stamped or embroidered on the material. If clothing is clearly for work purposes and not personal wear it is not subject to taxation as a fringe benefit.
- Boots that are reimbursed must meet the standards of work boots for safety purposes. Hiking boots and boots that have other purposes may be subject to taxation as a fringe benefit.
- Meals will only be reimbursed to the per diem rate published on the federal government website.. The cost of the tip will be reimbursed provided it does not exceed 20% of the bill and the total of the meal and tip does not exceed the per diem rate.
- When traveling overnight for a conference, lodging will only be reimbursed up to the stated conference rate for the days required for the conference or training. Any lodging expenses to upgrade a room could be subject to taxation by the IRS.
- Meals that are provided by the employer on a regular basis may be subject to taxation under the IRS regulations. Meals that are provided occasionally such as when employees are required to work overtime are exempt from the IRS taxable fringe benefits regulations.
- City vehicles should not be driven home. There may be exceptions for those in law enforcement that are assigned an on-call vehicle by the Chief of Police in order to respond to emergency situations. Any non-work related travel must be documented on a monthly basis and submitted to Payroll and may be subject to taxation. A police detective that is on call and required to respond immediately if called does not have to report mileage of vehicles. This use of a City vehicle is exempt from taxation. Use

the attached mileage log for reporting mileage. Any take home privileges or personal use of a City vehicle may be subject to taxation under the IRS regulations.

- Gift certificates or cash bonuses are subject to taxation under the IRS regulations.
- Longevity awards of cash or cash equivalent such as gift certificates and bonds are subject to taxation under the IRS regulations. Tangible personal property awards for longevity if given no more frequently than five (5) years are not subject to taxation under the IRS code at this time.
- “Grossing up” wages by an employer is subject to taxation. This is where an employer pays the employee’s share of payroll taxes without deducting it from the employee’s pay. The amounts paid are wages subject to withholding tax.

If an item is considered de minimus in value and is only occasional and not routine, it is not subject to taxation under the IRS regulations. An example given would be food at a City picnic or occasional doughnuts or soft drinks at a meeting.

Responsibilities

Employee:

- To be aware of the regulations regarding taxable fringe benefits.
- Only use clothes or safety equipment provided or reimbursed by the City for work purposes.

Supervisor:

- Ensure that any clothing provided to employees has City of Milwaukee identification embroidered or stamped on the clothing.
- To be aware of the regulations regarding taxable fringe benefits and take steps to avoid compromising what is taxable and what is excluded.
- Only use clothes or safety equipment provided or reimbursed by the City for work purposes.
- Periodically audit department or division procedures in conjunction with Human Resources and or the Finance department in order to comply with regulations.

Finance Department

- Follow IRS regulations with regards to withholding taxes.
- Follow City policy with regards to reimbursable expenses in order to avoid a situation where something that would otherwise not be a taxable fringe benefit becomes one, such as reimbursing without itemized receipts or detailed description of items.
- Periodically audit City procedures in conjunction with Human Resources in order to comply with regulations.

Human Resources:

- Periodically audit City procedures in conjunction with Finance in order to comply with regulations.